J.C. Penney Company, Incorporated Annual Report -- 1978
America's Corporate Foundation; 1978; ProQuest Historical Annual Reports
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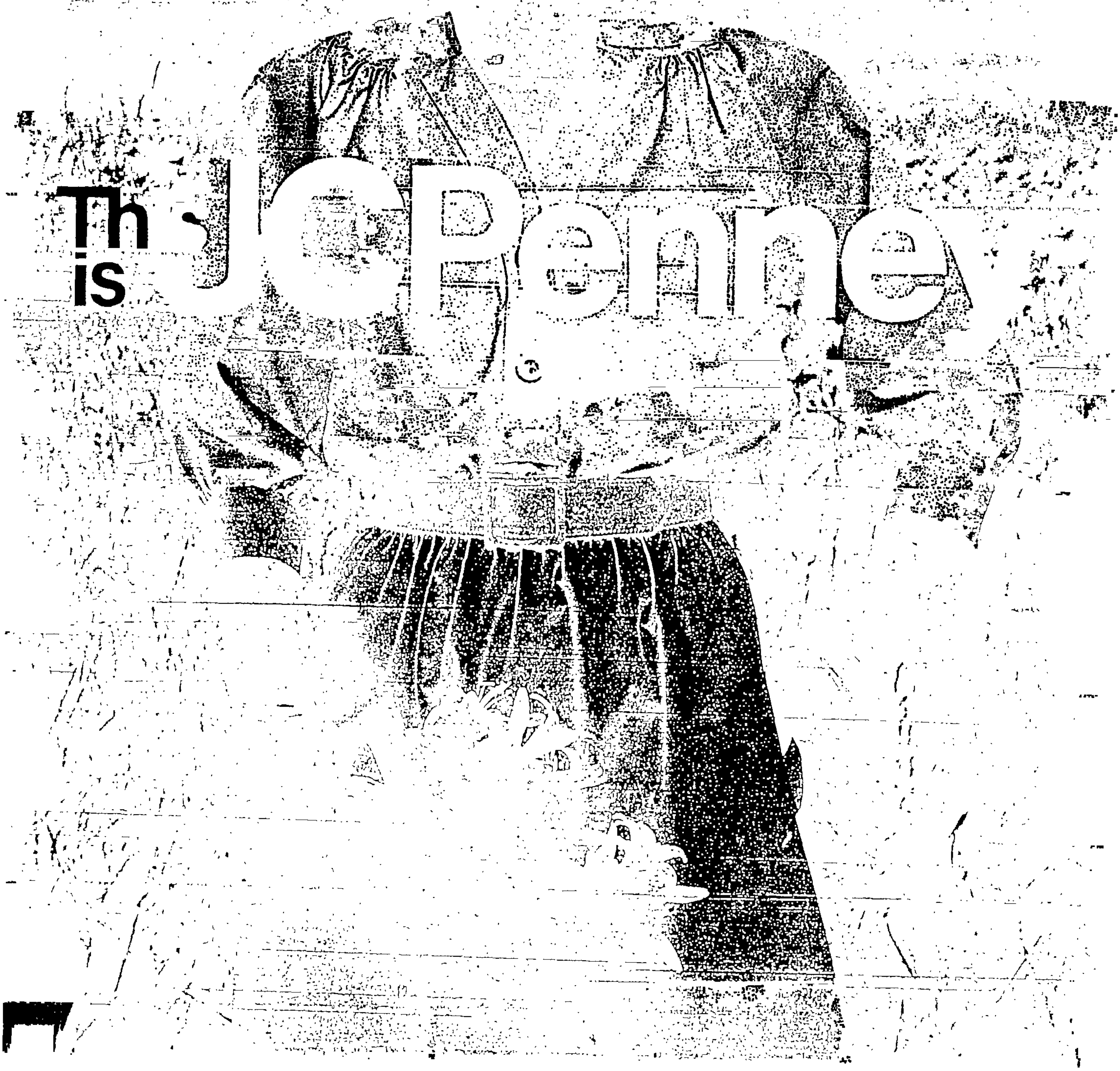
J. C. Penney Company, Inc
1978 Annual Report



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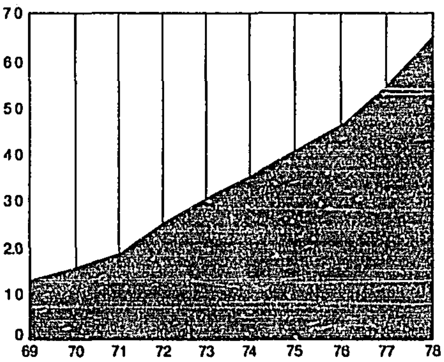
This is JCPenney.

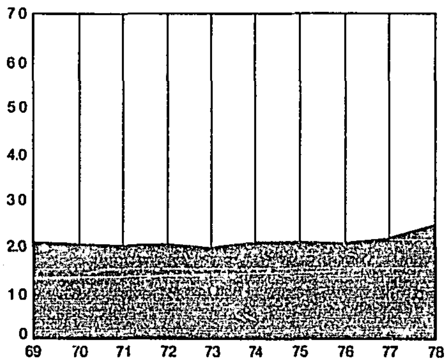
JCPenney is a major retailer, with stores in all 50 states, Puerto Rico, and Belgium. The dominant portion of the Company's business consists of providing merchandise and services to consumers through stores, including catalog operations. The Company markets apparel, home and automotive products, drug store merchandise, and insurance.

Value "Be sure that our merchandise gives more to the customer than a comparable item at the same price or give the customer the same item at a better price." This is the value philosophy that sets the tone and policy of JCPenney. Traditionally, as part and parcel of our value edgo, we have followed this guideline: "To expect for the service we render a fair remuneration and not all the profit the traffic will bear."

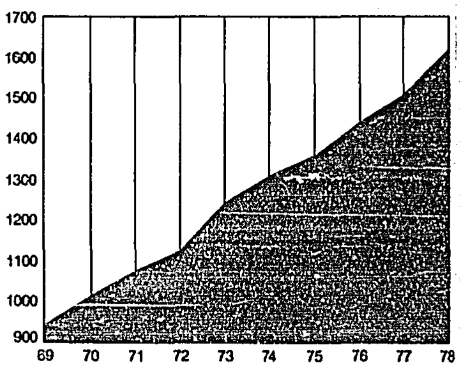
Quality James Cash Penney summed up his approach to merchandise in the slogan "Always First Quality." These words still guide our buyers as they "shop" for quality in buttons, inner soles, and inner linings as well as in batteries, shocks, and sporting goods. Working with them is the professional staff of our merchandise testing facilities, which are among the largest in the world. In the quest for quality, no detail can be overlooked.

JCPenney Stores' Sales (Dollars in billions)





Catalog Sales Centers (Units)



Full line stores The number of full line stores rose from 205 at 1969 year end to 482 at the end of 1978, in which year volume of $6.6 billion accounted for 60.5 per cent of total Company sales. These units are generally located in regional shopping centers in major metropolitan markets and offer a wide selection of traditional department store merchandise.

Soft line stores The sales pattern reflects a decline in the number of soft line stores from 1,441 at the end of 1969 to 1,201 at 1978 year end. Within this period, many of the units that were closed were replaced by other JCPenney stores in the same markets. Soft line stores sell principally apparel and household textiles. Sales of $2.5 billion accounted for 23.2 per cent of total JCPenney volume in 1978.

Catalog Our 1,622 catalog sales centers enable customers to purchase items not on hand in stores and supplement the merchandise available through our smaller stores. We are now the second largest marketer of catalog merchandise in the United States, with sales of $1.2 billion in 1978.

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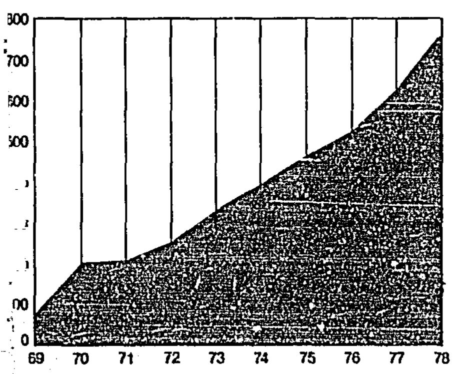
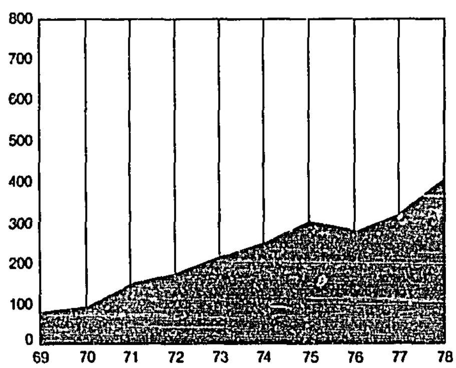
ervice At JCPenney, service means ore than help when customers need it. means day-in, day-out attention to detail om all our employees, who realize their b is serving customers to their complete atisfaction. Courteous, of course, and lways with a sense of urgency, whether it be product service, credit service, catalog service—that's our way. Not satisfied with merchandise you bought from JCPenney? Return it. That's our way, too.

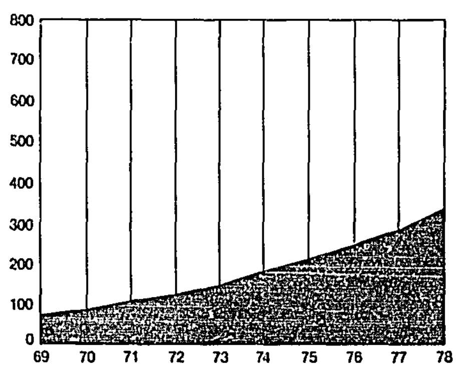
Fashion A much sought after ingredient in many categories of merchandise today, fashion is a look, a shape, a color that makes people feel "with it"—at work, on the exercise trail, at their leisure, at home, or on the town. Starting with women's apparel, we took on the challenge of offering fashions at the right price at the right time. Our efforts in this area have more recently influenced our approach to men's wear, children's wear, and home and leisure merchandise. If our customers see value in fashion, so do we.

People Our most valuable resource. Everything JCPenney stands for is the result of the combined efforts of some 211,000 JCPenney employees who fill hundreds of different types of jobs. Whatever their roles and responsibilities, our people strive to be professional merchants who have the same primary goal—serving our customers.

Other Retail Operations' Sales (Dollars in millions)







Belgian stores Our stores in Belgium operate under the name Sarma and offer general merchandise, food, and apparel mainly under the "Sarma" and "Penney" labels. At year end 1978, we had 78 of these units, as compared with 95 at the end of 1969. Sales in 1978 were $768 million, up from $204 million in 1970, our first full year of operations in Belgium.

The Treasury stores At the end of 1978, we operated 37 The Treasury discount stores, up from 10 at 1969 year end. Within this period, annual volume grew from $88 million to $409 million.

Drug stores Sales have risen from $84 million in 1969 to $348 million in 1978. The number of units at each year end was, respectively, 171 and 335. These stores operate under the name Thrift Drug or The Treasury Drug Center.

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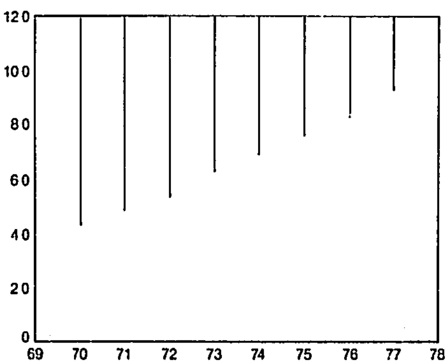
Financial Highlights (In millions except per share data)

For the Year	1978	1977*
Sales	**$10,845**	$9,369
Per cent increase from prior year	**15.8**	12.1
Net income	**$ 276**	$ 290
Per cent increase (decrease) from prior year	**(4.8)**	31.8
Per cent of sales	**2.5**	3.1
Per cent of stockholders' equity	**13.0**	15.5
Net income per share	**$ 4.12**	$ 4.43
Dividends per share	**$ 1.76**	$ 1.48
Capital expenditures	**$ 334**	$ 285

**Restated for the effect of the Company's adoption in 1978 of Financial Accounting Standard No 13—Accounting for Leases*

Sales (Dollars in billions)



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To Our Stockholders:

JCPenney achieved strong sales growth in 1978. Our volume gain for the year exceeded $1.4 billion. Expense pressures, however, prevented us from translating this performance into improved earnings.

Net income for the 52 weeks ended January 27, 1979 was $276 million, the second highest level in our history. It was 4.8 per cent below the record $290 million earned in 1977.

On a per share basis, net income in 1978 amounted to $4.12 compared with $4.43 in the prior year, when there were approximately 1.7 million fewer shares outstanding.

Sales in 1978 rose 15.8 per cent to $10.8 billion from $9.4 billion in the prior year. Excluding sales of supermarket and Italian operations, which were discontinued in 1977, sales for the year increased 17.8 per cent.

The regular quarterly dividend was raised from 37 cents per share to 44 cents, effective in the first quarter of 1978. The increase brought the annual dividend rate to $1.76 per share.

Net income in the first quarter of 1978 advanced 15.7 per cent from the corresponding 1977 period. Operating results continued to improve in the second quarter, when net income rose 21.2 per cent. While the sales pace remained strong in the second half, upward pressures on advertising and personnel related costs resulted in an 11.0 per cent decline in net income for this period.

Interest expense for the year climbed 60 per cent, from $130 million to $208 million, due to higher interest rates and borrowing levels.

JCPenney stores and catalog continued to be the chief contributors to sales and earnings. Sales of full line stores in 1978 were $6.6 billion, or 60.5 per cent of total JCPenney sales. Soft line stores generated $2.5 billion in volume, or 23.2 per cent of sales. Both full line and soft line units experienced profit margin erosion in 1978. This was the result of a combination of increased operating expenses and higher markdowns which offset the markup improvement.

Catalog volume increased 20 per cent to a record $1.2 billion. Catalog sales centers in Company stores accounted for $970 million, with mail order and outlet stores producing the remainder. Pressure on gross margin combined with higher operating expenses from recently opened distribution facilities reduced catalog's profit from its 1977 level.

Our first catalog distribution center to serve the West Coast opened in Reno,

Donald V. Seibert, Chairman of the Board

Nevada, in January 1979, enabling us to offer in-store catalog service from coast to coast. By the end of March 1979, we expect to have opened catalog sales centers in 245 stores in California, Hawaii, Oregon, and Washington. Our sixth distribution center, located in Manchester, Connecticut, is under construction.

Capital expenditures, mainly for JCPenney stores and catalog facilities, were $334 million in 1978. During the year, we opened 28 full line and 33 soft line JCPenney stores, 42 drug stores, and two stores in Belgium, adding new store space of more than 5 million gross square feet.

In 1979, we plan to open 37 full line and 26 soft line JCPenney stores, 36 drug stores, and three stores in Belgium. Capital expenditures, primarily for JCPenney stores and catalog, are expected to approximate $350 million.

JCPenney Financial Services, our insurance operations, continued to achieve record results in 1978. Combined net income from all insurance companies advanced to $22 million from $15 million in 1977. This gain was attributable primarily to improved underwriting experience in both casualty and life insurance. Our number of individual policyholders exceeded one million by year end 1978.

During the year, we opened insurance centers in 13 stores. In-store centers were operating in 20 JCPenney stores in Indiana, Kentucky, and Ohio at year end.

Sales of our Belgian operations rose to $768 million in 1978, and earnings improved compared with the prior year.

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The Treasury stores achieved a 24.6 per cent increase in sales, but the loss from the operation exceeded that of 1977, mainly as a result of lower gross margin. We have decided to sell the three Treasury stores in the Chicago market, and two of these units were scheduled to be closed on March 31, 1979. Near term profitability objectives for these stores would be difficult to attain due largely to the fact that three stores are too few to operate efficiently in a market the size of Chicago.

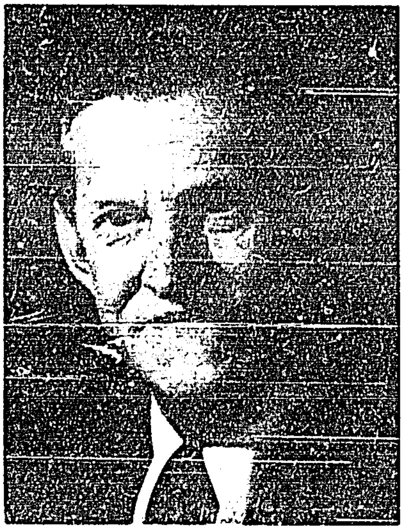
Drug store sales rose 16.7 per cent, to $348 million, from $298 million in 1977. Although there was a modest improvement in gross margin, earnings declined mainly because of increased operating costs.

We expect consumer spending gains to moderate during 1979, reflecting inflationary pressure on real consumer purchasing power, declining consumer confidence, and high levels of consumer debt. Despite these factors, we expect sales growth of 7 to 8 per cent for general merchandise retailers, as compared with an increase of nearly 10 per cent in 1978. Inflation is expected to account for approximately 5.5 per cent of the overall retail sales gain versus 8.5 per cent for the Consumer Price Index.

Inflation is the major economic concern for the country as a whole and for the retail industry. General merchandise retailers are affected significantly by rapidly increasing costs for labor, utilities, construction, and financing. We intend to intensify efforts to reduce costs and improve productivity.

We have written the President that we intend to follow the wage and price guidelines that have been established by the Council on Wage and Price Stability. Our compliance with this voluntary program and the compliance of business generally will accomplish little unless the federal government acts to restrain its spending, reduce the budget deficit, and cut regulatory costs. Actions must also be taken to stimulate investment and productivity. All these issues must be addressed if the nation is to decelerate the rate of inflation.

The critical factor for retailing success in any economic environment is the ability to satisfy consumers' needs and wants. During the past three years, JCPenney has developed a closely linked merchandising and marketing approach for each of our six major merchandise categories—women's, men's, infants' and children's, home furnishings', leisure, and automotive and



Walter J. Neppl, President

home improvement. Under our team concept, appropriate representatives of each of our five geographic regions, the merchandise department, and the marketing department join together at various levels to assure that our customers are being offered the right merchandise at the right time and price.

The efforts of the various merchandise teams have been an important factor in our sales success in 1978. The teams are continuing to improve their ability to identify merchandising opportunities and to select and present the desired items in a program tailored to the requirements of each market. We believe that this merchandising team concept will play a major role in enabling us to maximize sales and profit potential in the coming years.

One important element in our overall merchandising and marketing strategy is the Women's Fashion Program, which was expanded from 43 stores in seven markets at year end 1977 to more than 200 stores in 27 markets during 1978. Our ongoing analysis of Fashion Program store results indicates that JCPenney is continuing to gain recognition in the area of the women's market that appeals to both the taste and budget of our more fashion conscious customers. These findings have supported our decision to expand the Women's Fashion Program to an additional 200 stores in 1979 and 1980. All full line stores are expected to be on the program by year end 1980.

Our progress in 1978 was in large measure due to the hard work and enthusiasm of JCPenney people and suppliers plus a very positive reaction from customers to our programs. We would like to take this opportunity to express our appreciation for their continuing support. We especially wish to acknowledge the service of Charles T. Stewart, formerly Senior Vice President, General Counsel and Director of Public Affairs, who retired last year.

During 1978, we elected Marshall S. Armstrong and Boris Yavitz to our Board of Directors. As the listing on page 32 indicates, our directors offer a broad range of experience to our Company.

Other important aspects of our business, including contributions, community involvement, energy conservation, resource recovery, equal employment opportunity, and minority economic development, are described on page 31.

Immediately following this letter to you, we briefly discuss the changing lifestyle needs and preferences that are influencing our merchandising and marketing decisions today. Fashion, you will note, is coming on strong as a sought after ingredient in virtually every category of merchandise, and we are responding to this challenge.

Fashion, you will also note, is one of the words we now employ to say "This is JCPenney." The old standbys—*value, quality,* and *service*—are no less important, and the traditions established by our founder that are associated with these words guide us still in the way we conduct our business.

Above all, JCPenney is *people.* We are confident that the abilities and enthusiasm of our 211,000 employees will enable us to make the most of the Company's opportunities in the year ahead.

Donald V. Seibert

Donald V. Seibert, Chairman of the Board

Walter J. Neppl

Walter J. Neppl, President

March 27, 1979

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The Working Woman She is a powerful force in the marketplace and a prime target customer for JCPenney. Collectively, she earns more than $255 billion a year and provides a second income for approximately 40 per cent of all families in the United States.

Better than half of JCPenney's contemporary customers, women who spend the most on their personal needs, are employed. These women, on the job or on the go, want to look their best.

Today, JCPenney is meeting more of the fashion needs of contemporary customers, who have regularly shopped in our stores for children's wear (42 per cent of working women have children under six) and other merchandise. In many of our large regional shopping center locations, we have added higher taste level apparel and accessories, amounting to about 15 per cent of our total women's offerings, including some popularly priced labels, which our customers regularly bought in other department stores.

Catalog has become a shopping habit for the time-pressed working woman. The lead pages in our recent major catalogs have been clearly aimed at her. The coordinated outfit shown here appears in our Spring & Summer 1979 catalog.

Working for the working woman . . .

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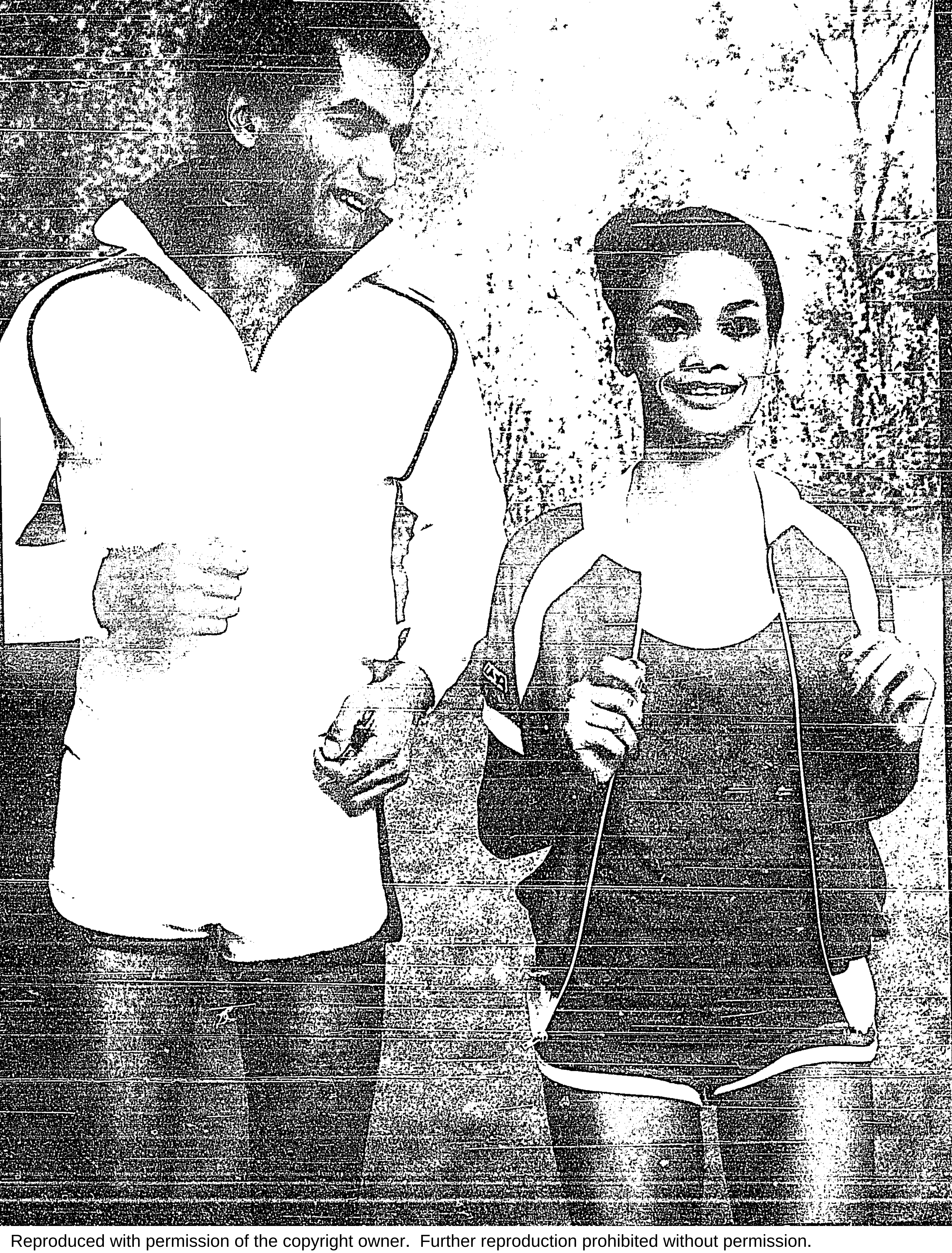

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The Sporting Life Long before physical fitness became an important pursuit for millions of Americans of all ages, JCPenney was building a reputation for excellence in sporting goods. Our strategy continues to focus on the leading brands in athletic equipment and apparel, while offering JCPenney brand items with a strong value edge in those categories where brand recognition is not a critical factor.

With more than 50 per cent of all adults in this country regularly engaged in active sports, the acceptance of JCPenney's sporting goods and active sportswear offerings is reflected in substantial sales gains. Expanded assortments in such categories as athletic footwear and higher quality tennis and golf equipment have contributed to the sales growth.

The desire to get into shape in order to wear the attractive clothes designed for active sports is one of the reasons why exercise has become a regimen for many of our customers. These clothes are generating strong sales not only in sporting goods areas of JCPenney stores, but even more significantly in the fashion sections of the men's, women's, and children's [illegible] catalogs. A [illegible] and catalog [illegible] exercise [illegible] ment for [illegible]

Helping [illegible]

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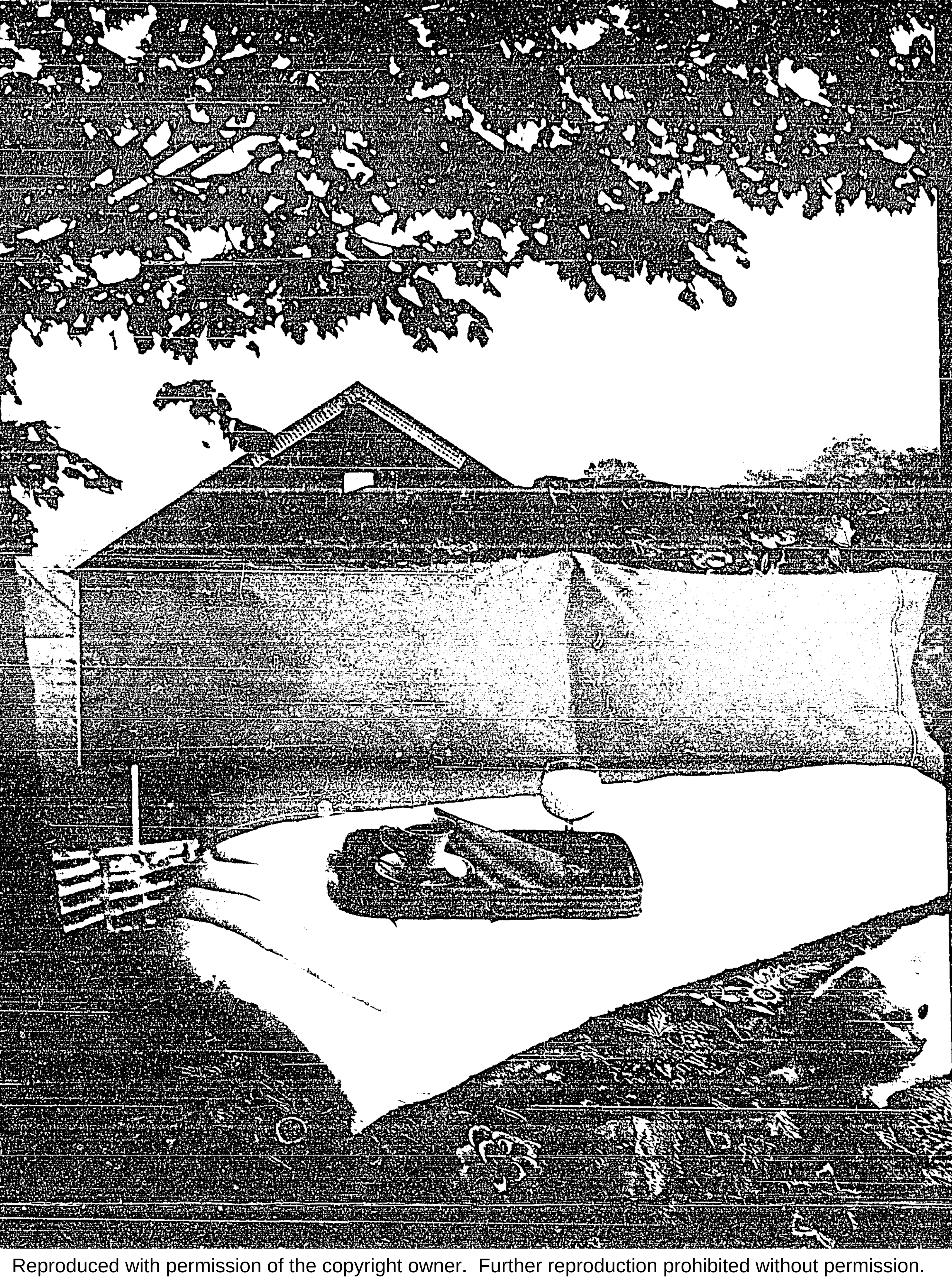

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Home Sweet Home There are more households per capita in the United States today than ever before. Smaller families, many with two incomes, and an increasing number of affluent singles are contributing significantly to a fast growing market for home products. This trend is expected to continue as the generation between 35 and 44 years old, the prime spenders on home lines, expands sharply in the 1980's.

Changes in lifestyle and values have transformed consumer preferences. Fashion plays a major role in many merchandise categories, while ease-of-care, durability, and mix-and-match flexibility are the order of the day for all merchandise. JCPenney's own merchandising and marketing strategy clearly reflects these changes. In furniture, for example, we are concentrating on the dominant design trends [illegible]

The home has become a major outlet for self expression and creativity. Nowhere is this more evident than in a traditionally strong area for JCPenney—home textiles. We have capitalized on the popularity of decorating with sheets and other domestics by offering more fashionable, exclusive designs and by introducing patterns, such as the one shown here, that are specially coordinated with our furniture and other lines.

Focusing on the home . . .

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The Life of Leisure Leisure activities have become an integral part of the lives of the vast majority of Americans. Time "away from it all" is an important means of relaxation and sharing interests.

JCPenney is a popular source for a wide range of leisure equipment and accessories. In our catalog alone, customers can find everything from sailboats to saddles. Store assortments are planned to meet the special needs of the market and the season.

Our apparel mix reflects the importance of leisure pursuits. Sportswear is a major category in the men's, women's, and children's areas as a result of the casual lifestyle needs of all members of the family.

Indoor leisure activities account for purchases of a wide range of merchandise. One increasingly popular avocation is cooking for one's own pleasure and entertaining others. At JCPenney, good looking cookware and dinnerware as well as time-saving appliances are proving irresistible to many amateur chefs. Similarly, continuing strong response to our home electronic offerings, notably our top-of-the-line MCS audio components, indicates that many customers are taking a knowledgeable approach to leisure spending.

Taking leisure seriously . . .

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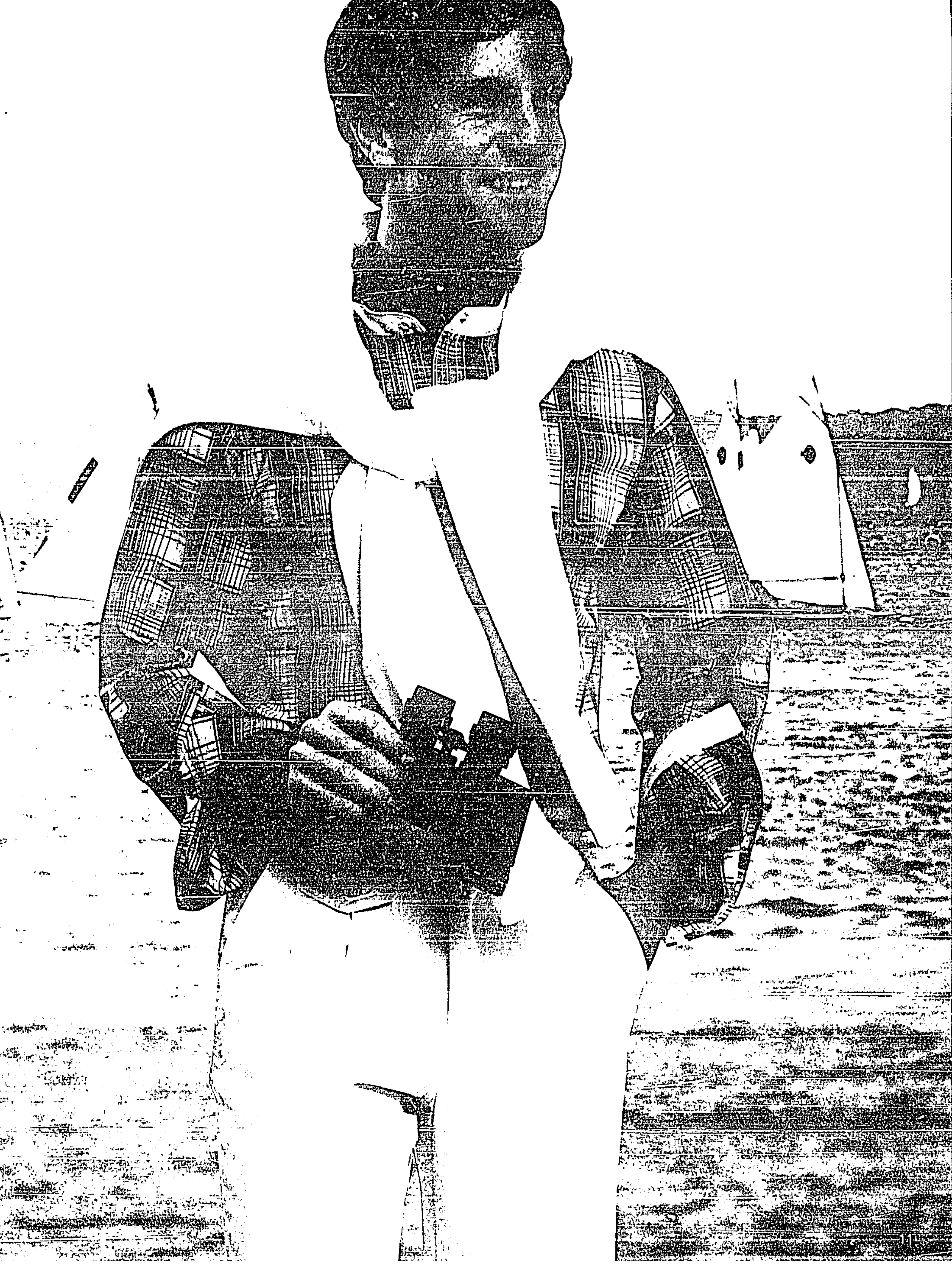

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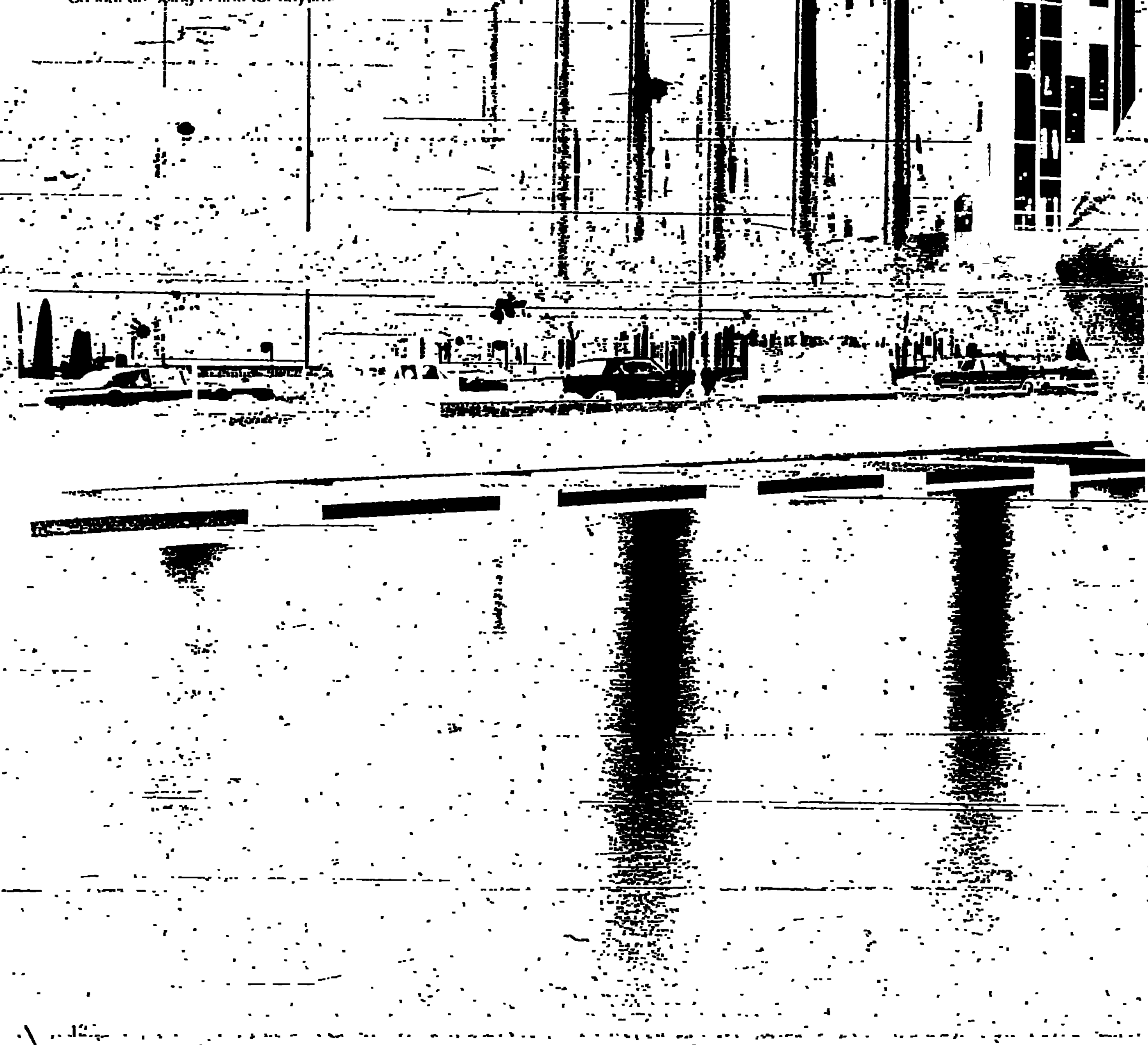
Stepping Out. Members of today's working generation are demonstrating a high degree of interest in expanding their horizons. Better educated than ever before and with more money to spend on leisure interests, these men and women are the main reason for the attendance records being set at regional theater, symphony orchestra, ballet, and opera performances. For business or pleasure, they also travel and dine out frequently, contributing to the boom in those industries.

In marked contrast to the prevalent attitude just a few years ago, there is widespread interest in dressing up. Casual dressing is fine for daytime leisure pursuits, but our own sales trends indicate that our customers want to dress appropriately for a night on the town as well as for work. Touch dancing and disco, part of today's popular culture, are playing an important role in the dress-up revival even among our school-age customers. The diversity of looks today is generating a good deal of enthusiasm among customers of all ages, and JCPenney stores and catalog are offering all the fashions that are in demand at reasonable prices.

Dressing America for occasions

This is JCPenney



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Statement of Income
Statement of Reinvested Earnings

(In millions except per share data)

Statement of Income	52 weeks ended January 27, 1979	52 weeks ended January 28, 1978
Sales	$10,845	$9,369
Costs and expenses		
Cost of goods sold, occupancy, buying, and warehousing costs	7,650	6,607
Selling, general, and administrative expenses	2,522	2,112
Interest, after deduction of income before income taxes of J.C.Penney Financial Corporation	208	130
Total costs and expenses	10,380	8,849
Income before income taxes and other unconsolidated subsidiaries	465	520
Income taxes	212	247
Income before other unconsolidated subsidiaries	253	273
Net income of other unconsolidated subsidiaries	23	17
Net income	$ 276	$ 290
Net income per share	$ 4.12	$ 4.43

Statement of Reinvested Earnings		
Reinvested earnings at beginning of year	$ 1,456	$1,264
Net income for the year	276	290
Changes in unrealized decline in value of equity securities	(1)	(1)
Dividends	(118)	(97)
Reinvested earnings at end of year	$ 1,613	$1,456

See Summary of Accounting Policies on page 17 and
1978 Financial Review on pages 18 to 26

Management's Discussion of Recent Results

1978 Compared with 1977

Sales for 1978 increased 15.8 per cent over 1977. Excluding the sales of the Company's supermarket and Italian operations, which were discontinued in 1977, sales for the year increased 17.8 per cent. Inflation in general merchandise was approximately 5 per cent.

Net income in 1978 decreased 4.8 per cent from 1977. Inventory levels were higher than requirements throughout the year. Despite heavy promotional activities, gross margin was maintained. Selling, general, and administrative expenses rose as a per cent of sales primarily due to increased advertising and personnel related costs. Interest expense climbed 60.0 per cent in 1978 because of higher interest rates and borrowing levels.

Effective January 27, 1979, the Company changed its accounting policy for leases and restated prior years' financial statements and other data to comply with Statement of Financial Accounting Standards No. 13—Accounting for Leases, as amended and interpreted through that date. This change decreased 1978 and 1977 net income and net income per share by $4 million and 6 cents and $5 million and 8 cents, respectively.

For additional discussion and analysis of 1978 compared with 1977, see To Our Stockholders on pages 2 and 3 and the 1978 Financial Review on pages 18 to 26.

1977 Compared with 1976

Sales for 1977 increased 12.1 per cent over 1976. During 1977, the Company sold its stores in Italy and discontinued its supermarket operations. Sales increased 13.5 per cent excluding discontinued supermarket and Italian operations. Inflation in general merchandise was approximately 4 per cent.

Net income in 1977 increased 31.8 per cent over 1976. Contributing to the increase, in addition to sales, was an improvement in gross margin despite a rise in promotional activity. Selling, general, and administrative expenses increased as a per cent of sales primarily due to personnel related costs. Interest expense increased 16.7 per cent in 1977 because of higher interest rates and higher borrowing levels.

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Balance Sheet

(In millions)

Assets	January 27, 1979	January 28, 1978
Current assets		
Cash and short term investments	$ 78	$ 73
Receivables, net	467	624
Merchandise inventories	2,046	1,706
Prepaid expenses	101	69
Total current assets	2,692	2,472
Investment in and advances to unconsolidated subsidiaries	498	443
Properties and property rights, net of accumulated depreciation and amortization of $569 and $501	1,609	1,404
Other assets	34	27
	$4,833	$4,346

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$1,077	$ 958
Dividend payable	30	24
Income taxes	45	96
Deferred credits, principally tax effects applicable to installment sales	404	346
Total current liabilities	1,556	1,424
Long term debt and commitments under capital leases	841	747
Deferred credits, principally tax effects applicable to depreciation and capital leases, net	79	57
Stockholders' equity		
Preferred stock, without par value· Authorized, 5 million shares—issued, none		
Common stock, par value 50¢: Authorized, 100 million shares—issued, 68.3 million shares	744	662
Reinvested earnings	1,613	1,456
Total stockholders' equity	2,357	2,118
	$4,833	$4,346

See Summary of Accounting Policies on page 17 and
1978 Financial Review on pages 18 to 26

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Statement of Changes in Financial Position

(In millions)

	52 weeks ended January 27, 1979	52 weeks ended January 28, 1978
Funds were generated from:		
Operations		
Net income	$ 276	$ 290
Deduct undistributed net income of unconsolidated subsidiaries	(66)	(40)
Depreciation and amortization	119	107
Deferred credits, principally tax effects applicable to depreciation and amortization	22	9
Stock issued for Company contributions to savings and profit-sharing and stock bonus plans	51	17
Total	402	383
External sources		
Disposition of properties	10	26
Increase in long term debt	100	64
Stock issued for employee contributions to savings and profit-sharing plan and exercise of options	31	36
Decrease (increase) in investment in and advances to unconsolidated subsidiaries	10	(2)
Total	151	124
Total funds generated	553	507
Funds were used for:		
Dividends	118	97
Capital expenditures	334	285
Retirement of long term debt	6	5
Change in other assets	7	8
Total funds used	465	395
Increase in working capital	88	112
Increase in other deferred credits, principally tax effects applicable to installment sales	58	56
Increase in working funds	$ 146	$ 168

Analysis of Changes in Working Capital and Working Funds

Cash and short term investments	$ 5	$ (40)
Receivables, net	(157)	5
Merchandise inventories	340	443
Accounts payable and accrued liabilities	(119)	(192)
Income taxes and deferred credits	(7)	(102)
Other	26	(2)
Increase in working capital	88	112
Deferred credits, principally tax effects applicable to installment sales	58	56
Increase in working funds	$ 146	$ 168

See Summary of Accounting Policies on page 17 and
1978 Financial Review on pages 18 to 26

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Summary of Accounting Policies

The dominant portion of JCPenney's operations consists of selling merchandise and services to consumers through stores, including catalog operations. The accounting policies employed by the Company are in accordance with generally accepted accounting principles. In those instances in which more than one generally accepted accounting principle can be applied, the Company has adopted the accounting principle that it believes most accurately and fairly reflects the situation, as described in the following paragraphs.

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1978 ended January 27, 1979; fiscal year 1977 ended January 28, 1978. Each year comprised 52 weeks. The accounts of several subsidiaries, including JCPenney Financial Services, are on the calendar year basis.

Basis of Consolidation. The consolidated financial statements present the results of all domestic and European merchandising operations and those real estate subsidiaries whose properties are presently being utilized in merchandising operations. Not consolidated are J. C. Penney Financial Corporation, JCPenney Financial Services, and JCP Realty, Inc. which are accounted for on the equity basis.

The income before income taxes of J. C. Penney Financial Corporation is included in the statement of income as a reduction of interest expense. The combined income of all other unconsolidated subsidiaries is included as a single item in the statement of income

Sales. Sales include merchandise and services, net of returns, and exclude value added and sales taxes.

Accounts Receivable. Finance charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Properties. Interest and certain other carrying costs on construction in progress and land held for future use are capitalized in order to reflect the complete cost of properties. Maintenance and repairs are charged to current operations as incurred, and improvements are capitalized.

Depreciation. The cost of buildings and equipment is allocated to revenues on a straight line basis over the estimated useful lives of the assets. The principal annual rates used in computing depreciation are 3 per cent for store buildings, 2-1/2 per cent to 4 per cent for warehouse and office buildings, and 10 per cent for fixtures and equipment. Property rights under capital leases and improvements to leased premises are amortized on a straight line basis over the term of the lease or their useful life, whichever is shorter.

Income Taxes. JCPenney uses the "flow through" method whereby income taxes are reduced currently for the amount of investment credits.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

Pension Cost. The cost of pension benefits has been determined by the entry age normal method. Unfunded actuarial liabilities are amortized over a period not to exceed 30 years.

Accountants' Report

To the Stockholders and Board of Directors of J. C. Penney Company, Inc.

We have examined the balance sheet of J. C. Penney Company, Inc. and consolidated subsidiaries as of January 27, 1979 and January 28, 1978, and the related statements of income, reinvested earnings, and changes in financial position for the 52 week periods then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J. C. Penney Company, Inc. and consolidated subsidiaries at January 27, 1979 and January 28, 1978, and the results of their operations and changes in their financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases as described in the 1978 Financial Review under the caption Net Income. Also, in our opinion, the accompanying statistical data on pages 27 through 30 present fairly the information shown therein.

345 Park Avenue
New York, N.Y.
March 21, 1979

Peat, Marwick, Mitchell & Co.

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1978 Financial Review

Overview

Sales in 1978 were $10.8 billion, an increase of 15.8 per cent over the $9.4 billion in 1977. Following is a breakdown of the Company's sales:

(In millions)	1978	1977	Per cent increase: All units	Per cent increase: Comparative units
JCPenney stores	$ 9,078	$7,740	17.3	14.5
Catalog	1,212	1,010	20.0	n/a
Other retail operations	1,525	1,252	21.9	18.9
Catalog sales centers	(970)	(798)	n/a	n/a
	10,845	9,204	17.8	15.1
Discontinued operations	—	165	—	—
Total	$10,845	$9,369	15.8	15.1

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores. Total catalog sales shown above include sales by catalog sales centers, outlet stores, and mail. The duplication with respect to sales by catalog sales centers is eliminated in the line entitled catalog sales centers Comparative units are those in operation throughout both 1978 and 1977. For further analyses of sales, see the discussion below and the Ten Year Operations Summary on page 27.

In the 10 years ended January 27, 1979, sales have grown at the compound annual rate of 12.4 per cent.

Net income was $276 million in 1978, a decline of 4 8 per cent from the $290 million earned in 1977. Net income per share, based on the weighted average number of shares outstanding, was $4.12 in 1978, a decrease of 7.0 per cent from the $4.43 per share earned in 1977, when there were approximately 1.7 million fewer shares outstanding.

Effective January 27, 1979, the Company changed its accounting policy for leases and restated prior years' financial statements and other data to comply with Statement of Financial Accounting Standards No. 13—Accounting for Leases, as amended and interpreted through that date. This change decreased 1978 and 1977 net income and net income per share by $4 million and 6 cents and $5 million and 8 cents, respectively.

In the 10 years ended January 27, 1979, net income per share has increased at the compound annual rate of 7.1 per cent.

The quarterly dividend declared was increased 7 cents per share in 1978 to 44 cents per share, or an annual rate of $1.76 per share. Dividends declared totaled $118 million in 1978 compared with $97 million in 1977.

Retail units and net selling space increased as follows:

	1978* Number of units	1978* Net selling space (000 sq. ft.)	1977 Number of units	1977 Net selling space (000 sq. ft.)
JCPenney stores				
Additions				
Full line	28	2,127	26	2,134
Soft line	33	727	30	652
Total	61	2,854	56	2,786
Closings				
Full line	2	139	2	80
Soft line				
Relocations	47	471	29	347
Other	15	143	20	353
Total	64	753	51	780
Increase (decrease), net	(3)	2,101	5	2,006
Other retail operations, net	36	336	28	338
Modifications and expansions, net	—	89	—	128
Subtotal	33	2,586	33	2,472
Discontinued operations	—	—	(22)	(1,165)**
Net increase in store space	33	2,586	11	1,307
Total in operation at year end	2,133	66,319	2,100	63,733

*In 1978, several stores were reclassified to reflect current merchandise assortments, resulting in a net decline in four full line stores and a net increase in four soft line stores.

**Includes 661 thousand square feet of net selling space for supermarkets previously operated in 36 The Treasury stores

In addition, the Company opened a 1 6 million square foot catalog distribution center in Reno, Nevada, in January 1979. A schedule of store space opened in 1978 appears on page 30. A history of retail units and net selling space is on page 27.

For the Quarters (In millions)	First 1978*	First 1977*	Second 1978*	Second 1977*	Third 1978*	Third 1977*	Fourth 1978	Fourth 1977*
Sales	$2,175	1,862	2,433	1,992	2,705	2,361	3,532	3,154
Per cent increase from prior year	16.8	7.4	22.1	8.3	14.6	11.9	12.0	18.0
Cost of goods sold, occupancy, buying, and warehousing costs	$1,533	1,320	1,730	1,435	1,898	1,666	2,489	2,186
Net income	$ 33	28	40	33	68	74	135	155
Per cent increase (decrease) from prior year	15.7	2.6	21.2	12.3	(6.6)	22.4	(13.1)	51.9
Net income per share	$ .50	.44	.58	.50	1.03	1.13	2.01	2.36
Dividends per share	$ .44	.37	.44	.37	.44	.37	.44	.37
Common stock price range								
(high)	$ 42	45	43	39	41	38	35	37
(low)	$ 33	36	36	33	32	33	30	32

*Restated for the adoption, effective January 27, 1979, of Financial Accounting Standard No 13—Accounting for Leases.

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JCPenney Stores

JCPenney stores contributed to sales as follows:

(In millions)	1978	1977	Per cent increase: All units	Per cent increase: Comparative units
Full line	**$6,562**	$5,486	19.6	15.5
Soft line	**2,516**	2,254	11.6	11.8
Total	**$9,078**	$7,740	17.3	14.5

JCPenney full line stores are generally major tenants in regional shopping centers located throughout the United States. These department stores offer a wide selection of family apparel, home furnishings and household textiles, leisure time goods, automotive equipment, and household durables. In most stores, about two-thirds of net selling space is devoted to apparel and other soft line merchandise. Most of these stores have a catalog sales center.

At year end, the Company had 482 full line stores in operation. These stores vary widely in size and average 88,000 square feet of net selling space. For full line stores in operation throughout 1978, sales per square foot of net selling space were approximately $160. The Company's store expansion program continues to be based primarily upon the opening of full line stores in shopping centers of major metropolitan markets.

Full line stores' profit declined in 1978 from the 1977 level as a result of a combination of increased operating expenses and higher markdowns which offset markup improvement.

JCPenney soft line stores sell principally apparel and household textile merchandise. These stores vary widely in size and average 13,000 square feet of net selling space. Most of these stores also have a catalog sales center, which contributes importantly to sales and profits. Most are located in communities where the Company has operated stores for many years.

At year end, the Company had 1,201 soft line stores in operation. For soft line stores in operation throughout 1978, sales per square foot of net selling space were approximately $166. The Company's plans for its soft line stores call for improving productivity in existing markets and expanding into new markets. These plans include modernization and relocation, as well as the leasing of existing retail space when suitable opportunities become available.

Soft line stores' profit in 1978 was below that in 1977. Increased operating expenses and higher markdowns offset the effect of greater sales.

Catalog

Catalog serves customers who order merchandise through catalog sales centers in the Company's stores or directly by mail from one of its five distribution centers as well as those customers who purchase merchandise in catalog outlet stores. This expands the Company's overall retailing capability by offering a wide range of apparel, home furnishings, leisure time goods, and automotive equipment.

The Company publishes two general catalogs: a fall and winter catalog and a spring and summer catalog. These are supplemented by special catalogs, including Christmas and other seasonal and promotional catalogs.

The following table shows the components of catalog sales:

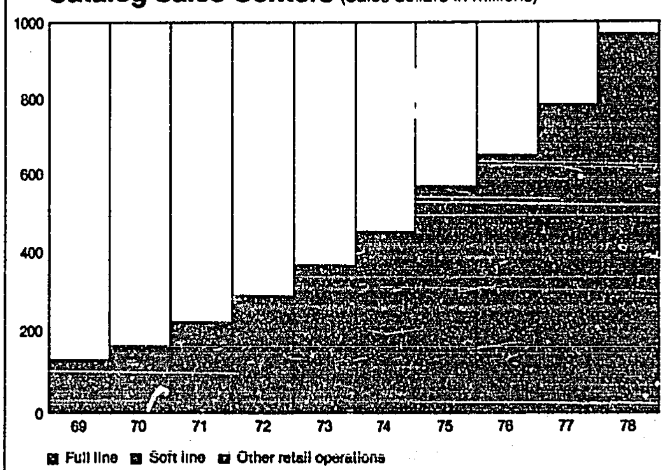
(In millions)	1978	1977	Per cent increase: All units	Per cent increase: Comparative units
Sales centers				
JCPenney stores				
Full line	**$ 441**	$ 350	26.2	20.6
Soft line	**502**	429	17.0	16.2
Other retail operations	**27**	19	39.8	21.9
	970	798	21.6	18.3
Mail order	**145**	133	9.1	n/a
Outlet stores	**97**	79	22.8	15.0
Total	**$1,212**	$1,010	20.0	n/a

The number of catalog sales centers at each year end is shown below:

	1978	1977
JCPenney stores		
Full line	**432**	381
Soft line	**1,110**	1,058
Other retail operations	**80**	67
Total	**1,622**	1,506

Despite a 20 per cent sales increase, pressure on gross margin combined with higher operating expenses from recently opened distribution facilities reduced Catalog's profit from the 1977 level.

Catalog Sales Centers (Sales dollars in millions)



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Belgian, The Treasury, and Drug Stores

Sales of other retail operations are as follows:

(In millions)	1978	1977	Per cent increase All units	Per cent increase Comparative units
Belgian stores	$ 768	$ 625	22.9	22.2
The Treasury stores	409	329	24.6	24.6
Drug stores	348	298	16.7	6.4
Total	$1,525	$1,252	21.9	18.9

Belgian stores, operating under the name Sarma, sell general merchandise, food, and apparel. Belgian operations include sales of $328 million to franchised stores, of which 192 were in operation at year end. Food sales accounted for 62 per cent of 1978 sales.

At year end, there were 78 Sarma stores with an average of 23,000 square feet of net selling space. Two stores were opened and two stores were closed during 1978.

In local currency, sales of all units and comparative units increased 7.8 per cent and 7.2 per cent, respectively.

Net assets were $80 million at year end 1978, compared with $70 million at year end 1977.

Belgian profits, in local currency and after the effect of currency translations, improved over 1977.

The Treasury stores are freestanding discount stores averaging 97,000 square feet of net selling space

As a result of lower gross margin and increased advertising costs in 1978, losses rose from the 1977 level

Drug stores, operating under the name Thrift Drug or The Treasury Drug Center, average 8,000 square feet of net selling space and offer prescription drugs, health and beauty aid products, and other typical drug store merchandise. During 1978, 42 stores were opened and six stores were closed. At year end, the Company operated 335 drug stores, of which 75 had catalog sales centers.

Drug stores' profit declined in 1978. A modest improvement in gross margin was offset by increased operating expenses

Unconsolidated Subsidiaries

Investment in and advances to unconsolidated subsidiaries were $498 million at year end 1978, compared with $443 million at year end 1977. The following tabulation shows a breakdown of the investment, stated at equity in net assets, and advances:

(In millions)	January 27 1979	January 28 1978
J.C. Penney Financial Corporation	$374	$331
JCPenney Financial Services	138	116
JCP Realty, Inc.	(14)	(6)
Other	—	2
Total	$498	$443

J.C. Penney Financial Corporation finances JCPenney's customer receivables Financial charges JCPenney a discount on the receivables purchased which is calculated to produce earnings sufficient to cover Financial's fixed charges, chiefly interest on borrowings, at least one and one-half times.

To finance its purchases of receivables, Financial sells its short term notes (commercial paper and master notes) directly to investors and from time to time issues long term debt and utilizes short term bank borrowings None of Financial's obligations is guaranteed by JCPenney.

Following is information regarding note borrowings and interest rates

	1978	1977
Average short term borrowings, net of short term investments (In millions)	$1,121	$605
Average short term rate	8.2%	5.8%
Average rate of interest paid on total debt	8.3%	6.7%

During 1978, Financial sold to two groups of institutional investors $100 million of 8-5/8% senior notes due April 1, 1998 and $150 million of 9% senior notes due May 1, 1998

Following is the condensed balance sheet of Financial:

(In millions)	January 27 1979	January 28 1978
Assets		
Customer receivables	$2,420	$1,840
Other	7	14
	$2,427	$1,854
Liabilities and equity		
Notes payable	$1,088	$ 846
Accrued liabilities	24	15
Due to JCPenney	121	92
Long term senior debt	795	545
Long term subordinated debt	25	25
Equity of JCPenney	374	331
	$2,427	$1,854

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The complete financial statements of J.C. Penney Financial Corporation are contained in its 1978 annual report, which is available upon request.

JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries These subsidiaries market life and health insurance and automobile and homeowners casualty insurance

The insurance subsidiaries' profit increased sharply in 1978 over 1977 due primarily to improved underwriting experience.

Combined financial information on the insurance operations, in accordance with generally accepted accounting principles, is as follows.

Summary of operations

(In millions)	Year ended December 31 1978	1977
Life and health		
Premiums written	$ 93	$80
Premiums earned	$ 88	$75
Investment income	14	11
Total revenues	102	86
Benefits, claims, and expenses	78	70
Income before income taxes	24	16
Casualty		
Premiums written	$ 74	$64
Premiums earned	$ 69	$60
Investment income	6	5
Total revenues	75	65
Claims and expenses	68	61
Income before income taxes	7	4
Combined		
Income before income taxes	$ 31	$20
Income taxes, net of tax effect of loss carryforward of $2 million and $1 million, respectively	9	5
Net income	$ 22	$15

Balance sheet

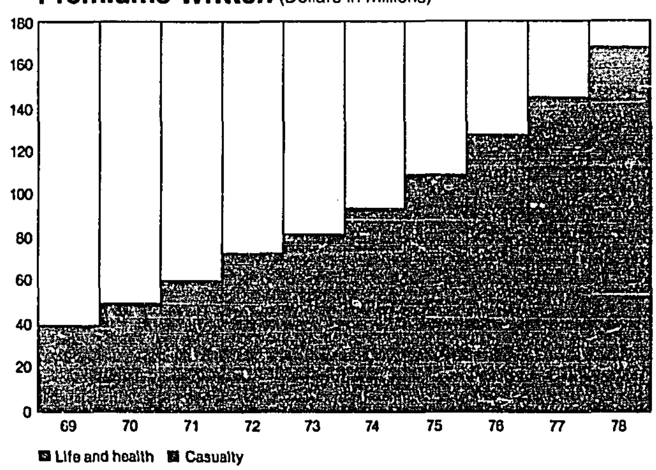
(In millions)	December 31 1978	1977
Assets		
Bonds, at amortized cost (market: $234 in 1978 and $203 in 1977)	$247	$207
Equity securities, at lower of aggregate cost or market	18	20
Loans	33	33
Real estate, net	19	20
Deferred policy acquisition costs	60	45
Other	23	18
	$400	$343
Liabilities and equity		
Policy and claims reserves	$218	$189
Mortgage obligation	10	10
Income taxes and other liabilities	34	28
Due to JCPenney	5	5
Equity of JCPenney	133	111
	$400	$343

JCP Realty, Inc. is engaged in the development and operation of shopping centers through participation in joint ventures.

At year end, Realty had interests in 32 shopping centers, of which 19 were in operation, six were under construction, and seven were in the planning stage.

Realty continued to record a small profit in 1978 and at year end had advanced $25 million to JCPenney

Premiums Written (Dollars in millions)



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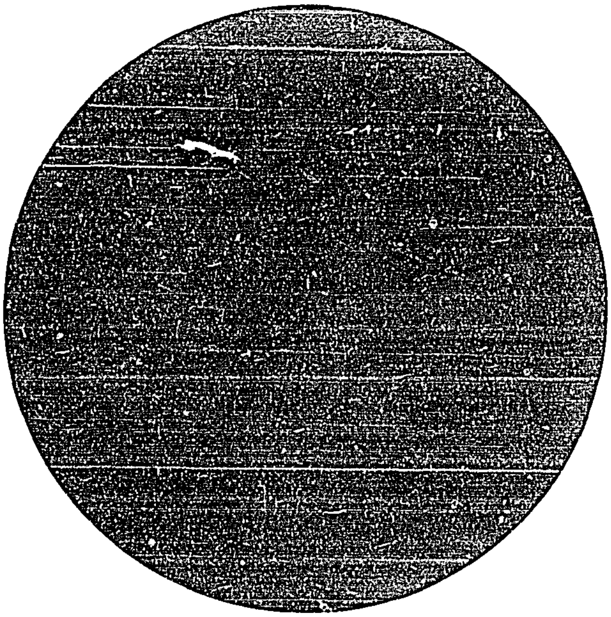
Assets

Receivables were as follows:

(In millions)	January 27 1979	January 28 1978
Customer receivables		
Regular charge	**$1,985**	$1,761
Time payment	**644**	494
	2,629	2,255
Less receivables sold to J.C. Penney Financial Corporation	**2,420**	1,840
	209	415
Due from J.C. Penney Financial Corporation	**121**	92
Other receivables	**190**	162
	520	669
Less allowance for doubtful accounts (2% of customer receivables)	**53**	45
Receivables, net	**$ 467**	$ 624

Customer receivables due after one year were approximately $477 million at year end 1978, compared with $393 million at year end 1977.

Merchandise inventories at year end 1978 were $2,046 million, an increase of 20.0 per cent from the $1,706 million at year end 1977. Substantially all inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method If the first-in, first-out method of inventory valuation had been used by the Company, inventories would have been $145 million higher at year end 1978 and $122 million higher at year end 1977.



Properties and property rights at year end were as follows:

(In millions)	1978	1977
Land	**$ 111**	$ 102
Buildings		
Owned	**524**	430
Capital lease property rights	**313**	313
Fixtures and equipment	**956**	811
Leasehold improvements	**169**	152
Construction in progress and land held for future use	**105**	97
	2,178	1,905
Less accumulated depreciation and amortization	**569**	501
Properties, net	**$1,609**	$1,404

Current replacement cost information. The rules of the Securities and Exchange Commission require that the Company provide certain information to investors regarding the Company's replacement cost of inventories and productive capacity. Such unaudited information is included in the Company's Form 10-K annual report for 1978 filed with the Securities and Exchange Commission, copies of which are available upon request. The replacement cost information does not reflect the effects of inflation on other assets, liabilities, income, and expenses The Company has adjusted and will continue to adjust selling prices, competitive conditions permitting, for cost increases which may be due in part to inflation.

Capital expenditures in 1978 and 1977 are shown in the following tabulation

(In millions)	1978	1977
Land	**$ 9**	$ 21
Buildings—owned	**99**	133
Fixtures and equipment	**194**	121
Leasehold improvements	**20**	14
Construction in progress and land held for future use	**12**	(4)
Total capital expenditures	**$334**	$285

Expenditures to renovate stores in 1978 and 1977 were $107 million and $65 million, respectively. There were no capital lease property rights in 1978 or 1977.

Capital expenditures and capital lease property rights for 1974-1978 are shown below:

(In millions)	JCPenney stores	Catalog	Other	Total
1978	**$203**	**$64**	**$67**	**$334**
1977	144	53	88	285
1976	176	26	35	237
1975	222	24	57	303
1974	145	50	72	267

JCPenney stores include expenditures for support facilities directly related to store operations Included in "Other" in 1977 is approximately $55 million for the purchase of the Company's headquarters building in New York City

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Liabilities and Stockholders' Equity

JCPenney's long term debt and commitments under capital leases are shown below:

(In millions)	January 27 1979	January 28 1978
8-7/8% sinking fund (commencing 1980) debentures due 1995	**$150**	$150
9% sinking fund (commencing 1984) debentures due 1999	**150**	150
8-1/2% guaranteed notes due 1983	**100**	—
5.778% mortgage notes	**37**	39
4-1/2% Eurodollar subordinated debentures due 1987, convertible at $83.96	**35**	35
5-1/2% note due 1980	**25**	25
6% Eurodollar subordinated debentures due 1989, convertible at $54.50	**11**	11
Other	**4**	5
Total long term debt	**512**	415
Present value of commitments under capital leases	**329**	332
Total long term debt and commitments under capital leases	**$841**	$747

To provide for conversion of debentures, 615 thousand shares of common stock were reserved at January 27, 1979.

Maturities of long term debt and rental payments under capital leases in future periods are as follows:

(In millions)	Long term debt	Capital leases
1979	$ 6	$ 28
1980	36	29
1981	11	29
1982	11	29
1983	111	30
Thereafter	343	511
Total	518	656
Less future interest and executory expenses	—	318
	518	338
Less amount included in current liabilities	6	9
	$512	$329

Confirmed lines of credit available to JCPenney totaled $1,011 million, including $981 million available to either JCPenney or J. C. Penney Financial Corporation, none of which was in use. All unused lines of credit are supported by compensating balances, which are also used to compensate the banks for banking services associated with activity.

Stockholders' equity increased to $2,357 million at year end 1978 from $2,118 million at year end 1977. Of the increase, $157 million resulted from an increase in reinvested earnings. The cumulative effect of the change in accounting to comply with Financial Accounting Standard No. 13 reduced reinvested earnings at the beginning of 1977 by $44 million.

The return on stockholders' equity was 13.0 per cent in 1978, as compared with 15.5 per cent in 1977.

The following table shows the changes in outstanding common stock:

	Shares (In thousands)		Amount (In millions)	
	1978	1977	**1978**	1977
Balance at beginning of year	**65,940**	64,504	**$662**	$609
Issued to savings and profit-sharing plan	**2,023**	1,163	**71**	43
Stock options exercised	**4**	—	**0**	—
Issued under stock bonus plan	**351**	273	**11**	10
	68,318	65,940	**$744**	$662

At the Annual Meeting of Stockholders on May 15, 1978, stockholders approved an increase in the authorized number of shares of Common Stock from 75 million to 100 million and total authorized shares from 80 million to 105 million.

The number of stockholders increased to approximately 86,000 at year end from about 83,000 at the end of last year. At 1978 year end, approximately 86,000 employees were the beneficial owners, through the savings and profit-sharing plan, of 7.8 million shares of common stock, which represented 11.4 per cent of shares outstanding.

JCPenney common stock is traded principally on the New York Stock Exchange. It is also listed on the Brussels and Antwerp Stock Exchanges.

Stock bonus plan. Under the Company's 1977 stock bonus plan, 750 thousand shares of common stock were reserved for awards to be earned during each of the three fiscal years ending January 26, 1980. In 1978, the equivalent of approximately 370 thousand shares of common stock was earned compared with 287 thousand shares in 1977.

Stock option plan. Under the stock option plan, only ten-year non-qualified options may be granted. Options generally become exercisable one year from the date of grant.

Transactions in stock options were as follows:

	1978		1977	
	Shares (In thousands)	Option price	Shares (In thousands)	Option price
Balance at beginning of year	**1,078**	**$40.69-70.44**	537	$43.44-70.44
Granted	**752**	**35.32**	577	40.69
Exercised	**(4)**	**35.32**	—	—
Expired	**(65)**	**35.32-70.44**	(36)	40.69-70.44
Balance at end of year	**1,761**	**$35.32-70.44**	1,078	$40.69-70.44

Under the plan, 334 thousand shares will be available for option grants through January 26, 1980.

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Supplementary Financial Data

Credit sales in 1978 rose to $4.3 billion, up 18.3 per cent from $3.6 billion in 1977. The proportion of credit sales to total sales increased to 42.2 per cent in 1978 from 42.0 per cent in 1977. In computing these percentages, sales in Belgium are excluded because the Company does not offer consumer credit in connection with those sales.

Approximately 82.9 per cent of total credit sales was made in accordance with the regular charge schedule, and the balance in accordance with the time payment schedule.

At year end, the number of accounts with outstanding balances was 11.9 million regular charge and 1.8 million time payment. Average account balances and the number of months over which they were collected (average maturities) were as follows:

	Average account balances		Average maturities (in months)	
	1978	1977	**1978**	1977
Regular	**$167**	$160	**5.2**	5.3
Time	**356**	323	**9.8**	9.9
All	**192**	180	**5.9**	5.9

Account balances in which any portion was three months or more past due represented 2.4 per cent of the amount of customer receivables at year end 1978 compared with 2.2 per cent at year end 1977.

The Company's policy is to write off accounts when a dollar amount equal to a scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Net bad debt losses increased in 1978 to $54 million, or 1.3 per cent of credit sales, from $40 million in 1977, or 1.1 per cent of credit sales.

The net cost of the retail credit operation increased in 1978, as shown below:

(In millions)	**1978**	1977
Finance charge income	**$326**	$271
Costs		
Administration and applicable store expenses	**166**	144
Interest on average receivables less applicable deferred taxes	**161**	110
Provision for doubtful accounts	**62**	48
Income taxes	**(29)**	(15)
	360	287
Net cost of credit	**$ 34**	$ 16
Net cost as per cent of credit sales	**.8%**	.5%

Class actions are pending against retailers, including the Company, seeking substantial recoveries and a reduction of monthly finance charges applicable to revolving charge accounts. The ultimate consequences of these actions are not presently determinable but will not, in the opinion of management, have a material adverse effect on the Company's financial position or results of operations.

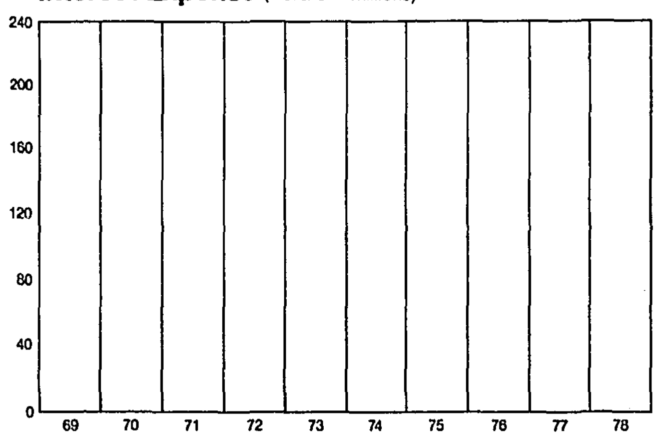
Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $285 million in 1978, up from $224 million in 1977.

Interest expense increased to $208 million in 1978 from $130 million in 1977 due to higher interest rates and higher borrowing levels. The following table shows the principal components of interest expense, including the effect of the accounting change required by Financial Accounting Standard No. 13:

(In millions)	**1978**	1977
Discount on customer receivables sold to J.C Penney Financial Corporation	**$219**	$123
Interest on advances from J.C. Penney Financial Corporation	**16**	—
Interest on long term debt	**35**	32
Interest imputed on capital leases	**23**	23
Other interest, net	**4**	—
	297	178
Less		
Income before income taxes of J.C Penney Financial Corporation	**83**	44
Capitalized interest on construction in progress and land held for future use	**6**	4
	89	48
Interest expense	**$208**	$130

Capitalized interest is computed by applying the average rate for short term borrowings of J C Penney Financial Corporation to the average cost of construction in progress and land held for future use. If interest had not been capitalized, net income would have been reduced $3 million in 1978 and $2 million in 1977

Interest Expense (Dollars in millions)



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Income tax expense was as follows:

(In millions)	1978	1977
Current		
Federal	**$117**	$163
State and local	**15**	19
	132	182
Deferred		
Federal	**72**	57
State and local	**8**	8
	80	65
Total income tax expense	**$212**	$247
Effective tax rate on income before income taxes and other unconsolidated subsidiaries	**45.7%**	47.6%

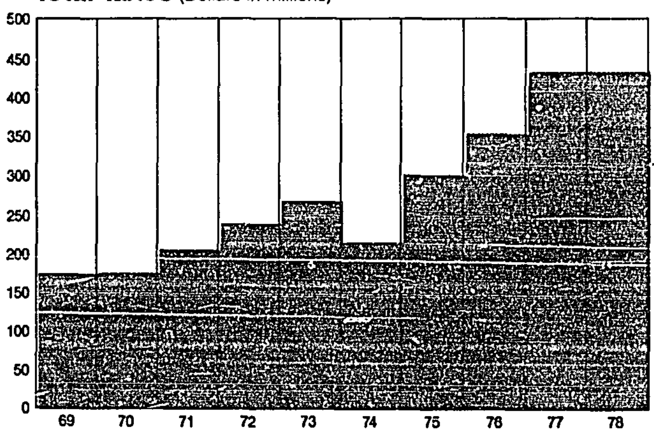
Deferred taxes arise principally from deferred gross profit on the balances due on installment sales, accelerated depreciation, and the accounting for capital leases

The effective tax rate differed from the Federal income tax statutory rates as detailed below:

	1978		1977	
	Amount (In millions)	Per cent of pre-tax income	Amount (In millions)	Per cent of pre-tax income
Federal income tax statutory rate	**$223**	**48.0**	$250	48 0
Effect of one month at the 1979 statutory rate	**(1)**	**(.1)**	—	—
Investment credits	**(20)**	**(4.3)**	(13)	(2 5)
State and local income taxes, less Federal income tax benefit	**12**	**2.4**	13	2.5
Other	**(2)**	**(.3)**	(3)	(.4)
Total income tax expense	**$212**	**45.7**	$247	47.6

Taxes other than income taxes rose to $223 million in 1978 from $188 million in 1977. The increase was due principally to higher payroll taxes.

Total Taxes (Dollars in millions)



Rent expense for real and personal property increased to $286 million in 1978 from $258 million in 1977.

The Company conducts the major part of its operations from leased premises including retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 30 years; however, leases are usually either renewed or replaced by leases on other premises.

The components of rent expense were as follows:

(In millions)	1978	1977
Minimum rent on operating leases	**$169**	$157
Other occupancy costs including rent based on sales	**117**	101
Total	**$286**	$258

Minimum annual rents under noncancellable operating leases and the present value of the total commitment are as follows:

(In millions)	
1979	$ 166
1980	158
1981	153
1982	146
1983	142
Thereafter	1,946
Total	$2,711
Present value	$ 900

Savings and retirement plans' expenses were as follows:

(In millions)	1978	1977
Pension	**$49**	$36
Savings and profit-sharing	**23**	25
Total	**$72**	$61

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. Current pension costs are funded annually as incurred, and at year end 1978, based upon market valuation of investments, all vested benefits were fully funded.

Effective in 1978, the Company adopted a noncontributory supplemental retirement plan for certain management employees. This plan was not funded. The actuarially determined liability is being amortized over a 10 year period.

The unfunded actuarial liability for all pension and retirement plans, including the supplemental plan, was $150 million at year end.

The savings and profit-sharing plan encourages savings by allocating 4-1/2 per cent of the Company's available profits, as defined in the plan, to participants who save under the plan. The eligibility requirement is the same as that under the Company's principal pension plan.

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Condensed financial statements of the principal retirement plans are as follows:

Balance sheet

(In millions)	Savings and profit-sharing December 31 1978	1977	Pension December 31 1978	1977
Assets				
JCPenney common stock at market value: 7.5 million shares in 1978; 6.4 million shares in 1977 (cost: $349 in 1978 and $315 in 1977)	**$228**	$226	**$ —**	$ —
Funds with insurance companies	**104**	92	**—**	—
Other investments at market value (cost: 1978, $17 and $184, respectively; 1977, $21 and $132, respectively)	**17**	20	**185**	132
Other assets, net	**22**	26	**24**	34
	$371	$364	**$209**	$166
Liabilities and equity				
Estimated liability for pensions	**$ —**	$ —	**$209**	$166
Participants' equity in savings and profit-sharing plan	**371**	364	**—**	—
	$371	$364	**$209**	$166

Statement of changes in retirement plans' assets

(In millions)	Savings and profit-sharing December 31 1978	1977	Pension December 31 1978	1977
Total assets at January 1	**$364**	$417	**$166**	$134
Company contributions	**23**	25	**36**	35
Participants' contributions	**49**	43	**—**	—
Dividends, interest, and other income	**18**	15	**9**	6
Market appreciation (depreciation) of investments	**(37)**	(93)	**2**	(5)
Benefits paid	**(46)**	(43)	**(4)**	(4)
Total assets at December 31	**$371**	$364	**$209**	$166

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Ten Year Operations Summary

	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
JCPenney full line stores										
Number of stores	**482**	456	432	382	351	331	305	267	237	205
Net selling space (In million sq. ft.)	**42.4**	40.4	38.4	34.1	31.1	29.0	26.5	22.6	19.3	16.3
Sales (In millions)	**$6,562**	5,486	4,695	4,056	3,535	3,079	2,537	1,970	1,613	1,313
Sales per square foot	**$ 160**	139	129	125	119	112	103	95	93	91
JCPenney soft line stores										
Number of stores	**1,201**	1,230	1,249	1,269	1,292	1,305	1,338	1,373	1,410	1,441
Net selling space (In million sq. ft.)	**15.3**	15.2	15 1	15 2	15.5	15.9	16.9	17.5	18.1	18.6
Sales (In millions)	**$2,516**	2,254	2,144	2,146	2,122	2,051	2,076	2,072	2,117	2,159
Sales per square foot	**$ 166**	151	145	140	134	124	121	118	115	115
Catalog										
Number of sales centers	**1,622**	1,506	1,442	1,363	1,308	1,243	1,131	1,079	1,019	944
Number of distribution centers	**5**	4	3	3	3	2	2	2	2	2
Distribution space (In million sq. ft.)	**9.6**	8.0	6.1	6.1	6.1	4.1	4.1	4.1	4.1	4.1
Sales (In millions)	**$1,212**	1,010	848	744	615	509	410	322	261	210
Belgian stores										
Number of stores	**78**	78	78	79	82	85	88	87	92	95
Net selling space (In million sq ft.)	**1.8**	1.8	1.7	1.7	1.7	1.6	1.5	1.2	1.2	1.2
Sales (In millions)	**$ 768**	625	526	469	397	334	262	208	204	84*
Sales per square foot	**$ 249**	214	189	177	147	136	130	118	119	49*
The Treasury stores										
Number of stores	**37**	37	37	37	31	25	23	19	13	10
Net selling space (In million sq. ft)	**3.6**	3.6	3.6	3.6	3 1	2.6	2.4	2.0	1.4	1.0
Sales (In millions)	**$ 409**	329	289	304	255	222	183	158	98	88
Sales per square foot	**$ 114**	92	81	85	91	88	86	90	82	84
Drug stores										
Number of stores	**335**	299	271	259	255	239	216	205	189	171
Net selling space (In million sq. ft.)	**2.8**	2.4	2.1	1.9	1.7	1.5	1.3	1.2	1.0	.9
Sales (In millions)	**$ 348**	298	258	231	191	155	132	112	98	84
Sales per square foot	**$ 135**	142	136	132	121	117	110	111	112	103

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores Total catalog sales shown above include sales by catalog sales centers, outlet stores, and mail

Sales per square foot include only those stores in operation for the full year.

*Reflects sales of Sarma, S A from July 31, 1969, date of purchase

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Ten Year Financial Summary

	1978	1977	1976	1975	1974
Results for year (In millions)					
Sales	$ **10,845**	9,369	8,354	7,679	6,936
Per cent increase from prior year	**15.8**	12.1	8.8	10.7	11.1
Credit sales as per cent of sales	**42.2**	42.0	40.3	38.9	39.8
Costs and expenses excluding interest and depreciation	$ **10,053**	8,612	7,750	7,136	6,503
Interest	$ **208**	130	111	124	155
Depreciation and amortization	$ **119**	107	99	91	81
Income before income taxes and other unconsolidated subsidiaries	$ **465**	520	394	328	197
Per cent of sales	**4.3**	5.6	4.7	4.3	2.8
Income taxes	$ **212**	247	186	153	93
Net income	$ **276**	290	219	181	113
Per cent increase (decrease) from prior year	**(4.8)**	31.8	21.4	60.5	(37.3)
Per cent of sales	**2.5**	3.1	2.6	2.4	1.6
Per cent of stockholders' equity	**13.0**	15.5	13.2	13.1	8.7
Dividends	$ **118**	97	81	70	68
Increase in reinvested earnings	$ **157**	192	142	105	45
Capital expenditures and property rights	$ **334**	285	237	303	267
Per share results					
Net income—primary	$ **4.12**	4.43	3.44	3.01	1.91
—fully diluted	$ **4.10**	4.42	3.43	3.00	1.91
Dividends	$ **1.76**	1.48	1.28	1.16	1.16
Stockholders' equity	$ **34.92**	32.19	29.11	27.53	23.22
Common stock price range					
High	$ **43**	45	61	63	79
Low	$ **30**	32	43	42	35
Price-earnings ratio					
High	**9**	12	19	38	25
Low	**6**	9	11	24	11
Financial position at year end (In millions)					
Assets	$ **4,833**	4,346	3,734	3,482	3,005
Working funds	$ **1,540**	1,394	1,226	1,107	884
Customer receivables					
J.C.Penney Financial Corporation, net of 5 per cent withheld	$ **2,299**	1,748	1,342	1,225	1,370
J.C.Penney Company, Inc., net	$ **277**	462	496	349	87
Merchandise inventories	$ **2,046**	1,706	1,263	1,191	1,219
Long term debt and commitments	$ **841**	747	687	690	683
Stockholders' equity					
Beginning of year	$ **2,118**	1,873	1,669	1,382	1,293
Conversion of debentures	$ **—**	—	—	—	—
Stock issued—public offering	$ **—**	—	—	131	—
Stock issued—employee benefit plans and other	$ **82**	53	62	51	44
Increase in reinvested earnings	$ **157**	192	142	105	45
End of year	$ **2,357**	2,118	1,873	1,669	1,382
Stockholders and employees					
Number of stockholders at year end (In thousands)	**86**	83	78	77	76
Average number of shares outstanding (In millions)	**67**	65	64	60	59
Number of employees at year end (In thousands)	**211**	193	183	186	193

Where required, the above amounts have been restated for the effect of Financial Accounting Standard No. 13—Accounting for Leases.

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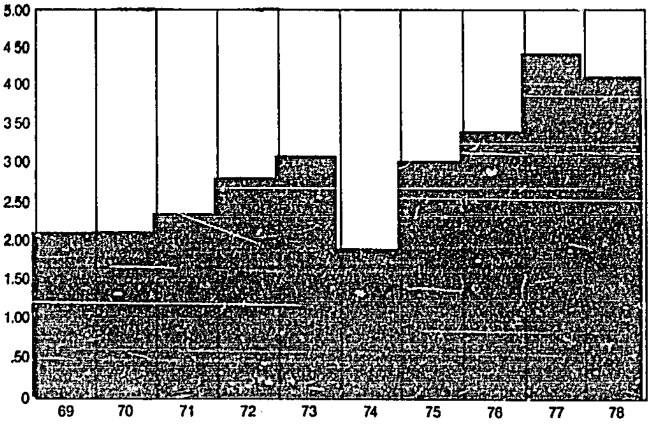
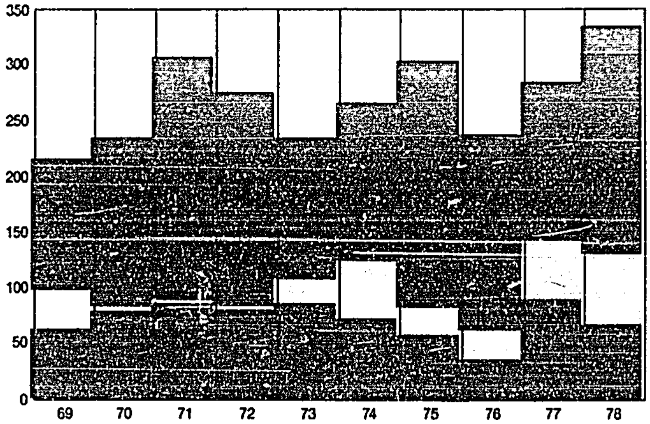
1973	1972	1971	1970	1969
6,244	5,530	4,812	4,355	3,913
12.9	14.9	10.5	11.3	15.8
39.4	38.7	36.8	36.9	37.4
5,727	5,089	4,441	4,026	3,593
112	78	64	72	56
71	61	51	41	37
334	302	256	216	227
5.4	5.5	5.3	5.0	5.8
164	150	131	108	118
180	162	132	113	113
10.9	23.1	16.2	.7	1.6
2.9	2.9	2.7	2.6	2.9
15.8	16.4	17.5	16.6	18.4
64	60	55	53	53
116	102	77	60	60
233	276	307	233	215
3.09	2.81	2.36	2.10	2.10
3.08	2.81	2.33	2.04	2.04
1.11	1.05	1.01	1.00	1.00
22.00	19.57	17.15	13.20	12.10
101	99	78	62	57
59	67	61	37	44
35	37	33	30	27
19	29	28	18	21
2,707	2,422	2,106	1,826	1,571
798	728	550	489	406
1,190	1,043	825	758	675
118	68	47	29	26
1,139	1,047	878	790	717
524	495	397	442	269
1,138	990	754	682	612
1	15	132	—	—
—	—	—	—	—
38	31	27	12	10
116	102	77	60	60
1,293	1,138	990	754	682
75	74	71	69	67
58	58	56	54	54
200	175	162	152	137

Net Income and Dividends Per Share (Dollars)



In 1974, the Company adopted the last-in, first-out method of inventory valuation for substantially all domestic inventories. In years prior to 1974, inventories were valued under the first-in, first-out method.

Capital Expenditures (Dollars in millions)



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Store Space Opened in 1978

City, state, shopping center	Gross square feet of store space (In thousands)
JCPenney stores	
First Quarter	
Vero Beach, Florida (Vero)	48
*Geneva, New York (Town and Country Plaza)	19
Cupertino, California (Vallco Fashion Park)	213
*Owensboro, Kentucky (Towne Square)	63
*Spartanburg, South Carolina (Westgate)	110
*Rock Springs, Wyoming (White Mountain)	34
*St. Charles, Missouri (Mark Twain)	35
*Neosho, Missouri	14
Second Quarter	
Novi, Michigan (Twelve Oaks)	156
*Temple, Texas (Temple)	97
*Kingsford, Michigan (Birchwood)	21
*Bimidji, Minnesota (Paul Bunyan)	34
*Huron, South Dakota (Huron)	31
Nashua, New Hampshire (Simoneau Plaza)	63
Third Quarter	
*Alexandria, Minnesota (Viking Plaza)	22
Florence, Kentucky (Florence)	147
*Grand Forks, North Dakota (Columbia)	102
*Terrell, Texas (Towne West Plaza)	18
*Texarkana, Texas (Central)	96
*Dublin, Georgia (Dublin)	34
*Rapid City, South Dakota (Rushmore)	101
*Stillwater, Oklahoma (Cimmarron Plaza)	38
*Watertown, South Dakota (Watertown)	34
*Wisconsin Rapids, Wisconsin (Rapids)	34
*Decatur, Alabama (Beltline)	90
*Fayetteville, Arkansas (N/W Arkansas Plaza)	101
*Yankton, South Dakota (Yankton)	31
Gaithersburg, Maryland (Lakeforest)	158
*Bay City, Texas (Matagorda Plaza)	22
Carolina, Puerto Rico (Plaza Carolina)	270
*Seminole, Oklahoma (Seminole)	17
*San Marcos, Texas (Springtown)	22
*Marinette, Wisconsin (Pine Tree)	39
*Dickinson, North Dakota (Prairie Hills)	34
*Harrisonburg, Virginia (Valley)	65
*Siloam Springs, Arkansas (Highland Park)	22
*International Falls, Minnesota (International Square)	21
Burnsville, Minnesota (Burnsville)	155
*Forsyth, Illinois (Hickory Point)	106
*Paris, Texas (Mirabeau Square)	22
Fourth Quarter	
*Allegany, New York (Bradners-Penney)	33
*Ashtabula, Ohio (Saybrook Plaza)	27
*Kerrville, Texas (River Hills)	39
*St. Clairsville, Ohio (Ohio Valley)	155
*Havre, Montana (Holiday Village)	34
*Norman, Oklahoma (Sooner Fashion)	39
Hadley, Massachusetts (Hampshire)	51
*Lake Jackson, Texas (Brazos)	102
*Marion, Indiana (North Park)	66
Louisville, Kentucky (Jefferson)	160
Olympia, Washington (Capital)	96
*Rexburg, Idaho	22
Rome, New York (Freedom)	63
San Antonio, Texas (Ingram)	180
Cherry Hill, New Jersey (Cherry Hill)	181
*Clearfield, Pennsylvania (Clearfield)	39
*Florence, Alabama (Regency Square)	102
*Stroudsburg, Pennsylvania (Stroud)	66
Thousand Oaks, California (The Oaks)	159
*Henderson, North Carolina (Henderson)	21
*Biloxi, Mississippi (Edgewater Plaza)	83
	4,457
Belgium (Two stores opened)	31
Drug stores and other (60 stores opened)	664
Gross store space opened	5,152

*Relocation of existing store

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Corporate Responsibility

It is an economic as well as a social responsibility of the Company to contribute toward a better quality of life in the communities where we do business. A healthy community is essential to a healthy, profitable business. Each department supports the Company's commitment to address voluntarily societal concerns which fall within its sphere of influence.

Contributions

Charitable contributions were $3.6 million in 1978, or .8 per cent of pre-tax income, compared with $3.0 million, or .6 per cent, in 1977. Contributions from stores and other field facilities to community organizations accounted for more than three-fourths of the Company total.

In 1978, 479 employees participated in the Company's matching gift program to support colleges and universities. Individual contributions amounted to more than $60,500. Company contributions brought total support for education through this program to more than $121,000.

Community Involvement

JCPenney encourages and recognizes involvement in community activities. Employees, at all levels, play an important role in many civic and charitable organizations as volunteers and as members of boards of directors and advisory councils.

Through the Company's Community Service Award Program, designed to stimulate and honor volunteers, some 300 employees were nominated for recognition of their outstanding community service; 95 were singled out for special commendation at district and departmental levels.

Last year the Company loaned 11 employees to serve in full time, on-loan assignments in communities across the country. Organizations and governments receiving assistance through this program included the City of New York and the United Way. In addition, 170 employees were granted released time, short work intervals averaging two hours per week, to work with school systems, chambers of commerce, U.S. Savings Bond campaigns, blood banks, and similar community groups.

As a community service, the Company introduced an "Exercise Trail" program with the cooperation of the United States Department of the Interior, the President's Council for Physical Fitness and Sports, and the United States Jaycees. The objective of the 20 station exercise course is to help provide a free community facility which will encourage physical fitness for the entire family in a pleasing environment. Last year 389 courses were opened in 47 states and overseas.

In New York City, a New York Community Affairs Action Group was formed to strengthen the Company's community relationships in its headquarters city and to provide guidance in disbursement of charitable contributions to City community organizations.

Energy Conservation

Continued emphasis was placed on the Company's energy conservation program in 1978, and progress was made toward the objective of a 40 per cent reduction in energy usage from the base year, 1973.

To combat rising costs, conserve energy, and utilize advanced technology more effectively, the Company has developed an Energy Management Process. Elements of this process include energy use surveys, conservation measures, recommendations as to materials and equipment, and audits of conservation effectiveness.

Automated systems are now used to control lighting, refrigeration chillers, air handlers, and high efficiency light sources. Plans include adding advanced micro-processors to control electric consumption in future stores.

Resource Recovery

In 1978, some 145 stores, catalog distribution centers, and other facilities participated in the Company's Resource Recovery Program, up from 104 in 1977. Through this program, more than 18 thousand tons of waste paper were recycled.

Employment

Year end employment totaled approximately 211,000, of whom 202,013 were employed in the United States, excluding unconsolidated subsidiaries. Summaries based upon the Company's consolidated Employer Information Reports EEO-1 to the United States Equal Employment Opportunity Commission for the years 1978, 1977, and 1976 appear below:

	1978		
Category	Total	Female	Minority
Officials, managers, and professionals	**25,932**	**9,830**	**1,943**
Management trainees	**2,536**	**1,166**	**440**
Sales workers	**93,929**	**76,921**	**9,482**
Office and clerical workers	**45,375**	**40,180**	**6,098**
Technicians, craftsmen, and operatives	**14,671**	**7,883**	**2,074**
Laborers and service workers	**19,550**	**8,237**	**3,614**
Total	**202,013**	**144,217**	**23,651**

	1977		
Category	Total	Female	Minority
Officials, managers, and professionals	23,788	9,014	1,618
Management trainees	1,814	771	342
Sales workers	84,513	68,448	8,196
Office and clerical workers	42,757	38,124	5,590
Technicians, craftsmen, and operatives	13,205	7,061	1,856
Laborers and service workers	18,983	8,035	3,457
Total	185,060	131,453	21,059

	1976		
Category	Total	Female	Minority
Officials, managers, and professionals	22,450	8,389	1,436
Management trainees	1,919	705	336
Sales workers	77,062	62,338	7,082
Office and clerical workers	41,867	37,234	5,029
Technicians, craftsmen, and operatives	13,215	7,019	1,856
Laborers and service workers	17,888	7,082	3,310
Total	174,401	122,767	19,049

The administration of the Company's equal employment opportunity program was further strengthened with the addition of Regional Affirmative Action Coordinators whose responsibilities include the implementation of field unit affirmative action programs.

Minority Economic Development

In 1978, goods and services purchased from minority owned businesses increased to $43 million, up from $28 million in 1977. This represented business relationships with 640 minority suppliers, up from the 450 suppliers reported the previous year.

Working bank accounts were maintained with 10 minority owned banks, the same as in 1977. Year end balances with these banks were $.4 million in 1978, compared with $.3 million in 1977. At year end, lines of credit with nine of these banks amounted to $1.8 million, as compared with $1.5 million in 1977.

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J. C. Penney Company, Inc.

Directors

Marshall S. Armstrong[1,3]
Chairman Emeritus,
Financial Accounting Standards Board

Louis L. Avner
President,
Thrift Drug Company

Kenneth S. Axelson
Senior Vice President

William M. Batten[2,3]
Chairman of the Board,
New York Stock Exchange, Inc.
Formerly Chairman of the Board,
J C. Penney Company, Inc

Oscar L. Dunn[3]
Chairman of the Board,
New York Chamber of Commerce and Industry
Formerly Senior Vice President,
General Electric Company

William M. Ellinghaus[1,4]
President,
American Telephone and Telegraph Company

Baldwin L. Humm
Senior Vice President

Jack B. Jackson[2]
Chairman of the Board,
Citizens Bank (Texas)
Formerly President,
J C. Penney Company, Inc

Vernon E. Jordan, Jr.[2,4]
President,
National Urban League

Lee S. Moore
Executive Vice President

Edward J. Mortola[4]
President,
Pace University

Walter J. Neppl
President

Jane C. Pfeiffer[2]
Chairman of the Board,
National Broadcasting Company, Inc

Donald V. Seibert
Chairman of the Board

George S. Stewart
Senior Vice President

Cecil L. Wright[4]
Retired
Formerly President,
J. C. Penney Company, Inc

Walter B. Wriston[1,3]
Chairman,
Citicorp and Citibank, N A

Boris Yavitz
Dean, Graduate School of Business,
Columbia University

Officers

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Chairman of the Board

Walter J. Neppl
President

Lee S. Moore
Executive Vice President

Senior Vice Presidents

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Director of Finance and Public Affairs

Baldwin L. Humm
Director of Merchandise

George S. Stewart
Director of Corporate Facilities and Services

Vice Presidents

Robert Capone
Director of Systems and Data Processing

Andrew Cumming
Director of Corporate Personnel

Albert W. Driver, Jr.
Secretary and General Counsel

Howard M. Evans
Director of Corporate Marketing

Paul A. Feaman
Director of Distribution

Robert B. Gill
Director of Corporate Personnel Management

Ralph B. Henderson
Director of Catalog Operations

Galen R. Hogenson
Director of European Operations

Oscar J. Hunter
Director of Corporate Planning and Development

Arthur Jacobsen
Director of JCPenney Financial Services

Paul R. Kaltinick
Director of Technical Support Operations

Thomas J. Lyons
Director of Public Affairs

Benjamin J. McKinney
Director of Store and Facilities Planning and Construction Services

Richard E. Montag
Director of Real Estate

Robert E. Northam
Controller

Stanley J. Putman
On Special Assignment

Foster E. Sears
Director of Strategic Research

George M. Stone
Director of Government Relations

Robert R. Van Kleek
Director of Special Business Operations

Regional Vice Presidents

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Western Region

David F. Miller
Eastern Region

Charles R. Steinforth
Central Region

Marvin L. Tanner
Southwestern Region

John A. Wells
Southeastern Region

Divisional Vice Presidents

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Director of Corporate Responsibility

Charles L. Brown
Director of Auditing

J. Alan Ofner
Director of Corporate Personnel Planning

Eugene F. Rowan
Manager of Federal Government Relations

Satenig S. St. Marie
Director of Consumer Affairs

Treasurer

Paull F. Hubbard

Assistant Controllers

Robert O. Amick

Donald F. Herbst

Assistant Secretaries

Cornelius T. Dorans

Archibald E. King, Jr.

J. David Silvers

Assistant Treasurers

William B. Baxter

John B. Hebard

Transfer Agents

J C Penney Company, Inc.
Securityholder Services
3801 Kennett Pike
P O Box 3940
Wilmington, Delaware 19807

Chemical Bank
55 Water Street
New York, New York 10041

Registrars

Chemical Bank
55 Water Street
New York, New York 10041

Wilmington Trust Company
Wilmington, Delaware 19899

Exchange Listings

The New York Stock Exchange

Brussels and Antwerp Stock Exchanges

1. Member of the Audit Committee of the Board of Directors This committee recommends to the Board of Directors the independent auditors to be employed for the purpose of conducting the annual audit of the Company's accounts, discusses with the auditors the scope of their examination, reviews the Company's financial statements and the auditors' report with Company personnel and the auditors, determines whether the auditors have received all the explanations and information they had requested, and invites the recommendations of the auditors regarding internal controls and other matters The Audit Committee is composed entirely of outside directors.

2. Member of the Corporate Responsibility Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends and public policy issues which may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest. The committee is composed entirely of outside directors

3 Member of the Committee on Directors This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors. Only outside directors serve on this committee.

4 Member of the Personnel Committee. This committee reviews the Company's profit incentive and equity compensation plans, makes recommendations in areas concerning personnel relations, and takes action with respect to the compensation of Company officers who are directors. It is also the committee which acts under certain of the Company's stock and incentive compensation plans. This committee consists entirely of outside directors

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Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 A M , Monday, May 14, 1979, at the Essex House, 160 Central Park South, New York City. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 9, 1979.

Supplemental Information

Copies of the Company's Form 10-K annual report for 1978 to the Securities and Exchange Commission and consolidated Employer Information Reports EEO-1 for 1978 year end to the United States Equal Employment Opportunity Commission will be made available upon request to:

Ms. Sylvia A. Dresner
J. C. Penney Company, Inc., Public Information
1301 Avenue of the Americas, New York, New York 10019
Phone: (212) 957-8170

Copies of J. C. Penney Financial Corporation's annual report are available from:

Mr. Philip G. Rickards
J. C. Penney Financial Corporation
3801 Kennett Pike, P.O. Box 3999
Wilmington, Delaware 19807

Inquiries about your stockholder record should be forwarded to:

Mr. Alfred C. Riley
J. C. Penney Company, Inc.
Securityholder Services
P.O Box 3940, Wilmington, Delaware 19807

Prices of apparel and home furnishings shown in this Report:

Front cover	
Dress	
Miss sizes	$34
Tall Miss sizes	$35
Second cover	
Dress	$14
Blazer	$18
Slacks	
Regular, slim	$11
Husky	$12
Shirt	$ 9
Page 5	
Blazer	
Miss sizes	$42
Tall Miss sizes	$43
Skirt	
Miss sizes	$24
Tall Miss sizes	$25
Blouse	
Miss sizes	$18
Tall Miss sizes	$19
Coat	
Miss sizes	$70
Tall Miss sizes	$75
Page 6	
His	
Terry jacket	$28
Terry shorts	$10
Hers	
Terry jacket	$16
Terry tank	$ 8
Terry shorts	$ 8

Page 8	
Ruffle pillow shams (each)	$14.00
Full comforter	$60.00
Full bed skirt	$32.00
Full bed sheets (each)	$ 6.99
Pillow cases (pair)	$ 5.49
Page 10	
Windbreaker	$3.99
Shirt	$4.99
Shorts	$2.22
Page 11	
Shirt	$15
Slacks	$20
Sweater	$17
Page 13	
Dress	
East coast	$ 48
West coast	$ 50
Three-piece suit	$130
Rear cover	
Blazer	$40
Slacks	$20
Shirt	$13

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